LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 7874 **DATE PREPARED:** Jan 28, 1999
BILL NUMBER: SB 629 **BILL AMENDED:**

SUBJECT: Income tax deduction for medical care insurance.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues	(1,400,000)	(2,800,000)	(3,000,000)
State Expenditures			
Net Increase (Decrease)	(1,400,000)	(2,800,000)	(3,000,000)

Summary of Legislation: This bill provides an individual adjusted gross income tax deduction for insurance premiums paid for medical care coverage by sole proprietors, S corporation shareholders, or partners to the extent the premiums are not deductible under the federal Internal Revenue Code.

Effective Date: January 1, 1999 (retroactive).

Explanation of State Expenditures: There will be some additional administrative expenses for the Department of Revenue to revise tax forms, instructions and computer programs associated with the above deduction. These expenses will be covered under their existing budget.

Explanation of State Revenues: This bill provides an Individual Adjusted Gross Income Tax deduction for insurance premiums paid for medical care coverage by sole proprietors, S corporation shareholders, or partners to the extent the premiums are not deductible under the federal Internal Revenue Code (IRC). The bill requires that this deduction be multiplied by the taxpayer's apportionment factor.

This deduction was recently increased in the 1996 Health Insurance Portability Act, Public Law 104-191, the Taxpayer Relief Act of 1997 (H.R. 2014) and the Tax and Trade Relief Extension Act of 1998 (Division J of HR 4328, The Omnibus Consolidated and Emergency Supplemental Appropriations Act,) P.L. 105-277 (1998). The percentage of the federal deduction are outlined in the following table.

Tax Year	1996 Health Insurance Portability Act	1997 Taxpayer Relief Act	P.L. 105-277 1998
1999	45%	NC	60%
2000	45%	50%	60%
2001	45%	50%	60%
2002	45%	60%	70%
2003	50%	80%	100%
2004	60%	80%	100%
2005	70%	80%	100%
2006	80%	90%	100%
2007	80%	100%	100%

This bill would allow a state deduction in the amount which is not covered under the federal deduction. (This is because the federal deduction flows through to the calculation of federal adjusted gross income which is the starting point of calculating Indiana income taxes.) However, for shareholders of corporations that conduct business both within and outside Indiana, this deduction must be multiplied by the taxpayer's apportionment factor. Under the current federal schedule, the new maximum state deduction is reported below along with the corresponding revenue loss. (The maximum outlined below assumes an 100% apportionment factor- i.e. all the taxpayer's income is attributable to Indiana.) Beginning in tax year 2003, this deduction would not generate any additional revenue loss since the federal deduction is set at 100% of the medical care insurance expenses. This deduction is effective for tax years beginning January 1, 1999 and would affect revenue collections starting in FY 99 (due to changes in estimated payments) through FY 2003.

Tax Year	Current Federal Deduction	New Maximum State Deduction	Tax Year Revenue Loss	Fiscal Year Revenue Loss
1999	60%	40%	($2.8 M)	($1.4 M)
2000	60%	40%	($2.9 M)	($2.8 M)
2001	60%	40%	($3.0 M)	($3.0 M)
2002	70%	30%	($2.4 M)	($2.7 M)
2003	100%	0	0	($1.2 M)

Individual income tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties with a local option income tax will lose a minimal amount of local option income tax revenue during the four years which this deduction will reduce individual adjusted gross income.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Joint Committee on Taxation.